The chair of one of Iowa’s powerful tax-writing committees said March 19 that allowing certain local projects to keep their own sales-tax revenue – rather than sending the money to the state – is a slippery slope.

“I think it’s a very dangerous road to go down,” Iowa House Ways & Means Chair Tom Sands (R-Wapello), told IowaPolitics.com. “The state started down that road just a little bit with the racetrack, and now, here are two other proposals that are coming off of that. So the next question is: Where will this end?”

In 2005, lawmakers and the governor first used this economic-development tool to bring NASCAR to Iowa. Then-Governor Tom Vilsack signed a law that paved the way for construction of the Iowa Speedway in Newton by allowing the racetrack to keep $12.5 million of its own future sales-tax revenue.

An Iowa policy group warned then that the Newton project would encourage other cities to seek similar subsidies from state funds. The group, it appears, was right.

Two bills in the Iowa legislature this year also would divert future state sales-tax revenue to local projects.

"Where does it stop?" asked Peter Fisher, research director of the Iowa Policy Project – an Iowa City not-for-profit that researches and analyzes state policy decisions. "We're shooting ourselves in the foot. ... These kinds of measures that continually erode state revenues have consequences."

House File 2419 and its companion, Senate File 2168, would give a sales-tax rebate of up to $16.5 million over 10 years to the owners of a proposed complex of 24 baseball and softball diamonds near Dyersville, at the filming site of the inspirational baseball movie *Field of Dreams*. The money would come from sales-tax revenue generated at the site.

The House Ways & Means Committee was scheduled to take up the legislation March 19 but instead postponed action on the bill. Sands said he wasn't sure if it had the committee votes for passage.

"There's people very emotional on it, on both sides," Sands said. "But I think the policy question that people really need to be asking themselves is: Is this a good policy decision going forward as a state as a whole? I don't believe we've had the answer on that yet."

Meanwhile, Senate File 2217 would have a much larger fiscal impact: It would allow communities to keep up to $300 million in locally generated sales-tax revenue over 10 years to pay for flood-mitigation projects. The bill was proposed last year by Ron Corbett, the mayor of Cedar Rapids – which in 2008 was devastated by 10 square miles of flooding.

The Iowa Senate on February 28 gave its 50-0 approval to the flood-mitigation bill. The House Appropriations Committee then approved it 21-4, and it's now before the House Ways & Means Committee.

Sands said that should lawmakers approve the bill, it would need "lots of oversight to make sure that if the money does get appropriated and used, that it's being used exactly [for] what it was supposed to be for, because this is taxpayer money."

The proposals have drawn criticism from both sides of the aisle.

Some Republicans say the Field of Dreams bill puts the legislature in the business of picking winners and losers by choosing who gets tax breaks. Meanwhile, Democrats criticize the flood-mitigation bill as diverting money from the state general fund that would otherwise be used to pay for education and mental-health services.

“Simply put, the rest of Iowa would be paying for the cost of Cedar Rapids flood-levee construction,” Fisher wrote in a March 2011 policy brief . “[T]he argument could (and doubtless will) be extended to any other city putting in a waste-treatment plant or a convention center ... ultimately at the expense of taxpayers throughout the state.”

State Auditor David Vaudt, a Republican, said the legislature must decide how it wants to spend state sales-tax dollars. What’s key, he said, is being open and transparent with taxpayers.

“No matter if you provide it by allowing somebody to keep certain taxes or you write them a check, there’s a cost to the taxpayers of Iowa,” Vaudt said. “Many times, when things aren’t actually shown through the budget with a direct expenditure, people sometimes forget that there’s a cost to it.”

Iowa isn’t alone in using future sales-tax dollars in this way for economic development.

In Kansas, a decade-old initiative called STAR bonds helped bring NASCAR to that state. The program has used state and local sales-tax money to help private developers build things such as posh shopping districts, speedways, riverfront entertainment districts, and salt-mine museums.

The program there has faced similar criticism of reducing general-fund tax revenue that otherwise would go to help balance the state budget or go to schools, public safety, social services, or other government needs.

The Mercatus Center, a not-for-profit at George Mason University in Arlington, Virginia, that emphasizes “market-oriented ideas,” is a critic of programs that rely on using future tax revenue to pay up-front for economic-development projects such as speedways.

“They’re gambling taxpayer dollars with what they think is going to be a beneficial economic-development project that may or may not be economically viable,” said Eileen Norcross, a senior researcher and government-finance specialist at the Mercatus Center. “They’re taking a risk.”

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